Introduction

According to modern economics, market power (or monopoly power)\(^1\) is ‘the ability of firms to influence the price of the product or products they sell’ (Martin 1989, p. 16). But what’s the history of this idea? How have the economists of the past explained monopoly power? And what role has this concept played in economic interventionism? I first encountered this question many years ago (Mosca 1998) when studying the work of the engineer-economist Jules Dupuit, who had clearly described some of the causes of market power, apart from the institutional ones.\(^2\) It made me wonder where I could find a history of ideas on the sources of monopoly power and, as I will explain in Chapter 1, it turned out that this history coincides with the theory of barriers to entry.

Histories of thought that focus on entry barriers, however, go no further back than Bain (1956), even though models of monopoly and duopoly date back at least to Cournot (1838). Quite apart from the use of models, the question of the sources of market power has existed in economic theory from the very beginning.\(^3\) I myself found a treatise on it in the writings of Dupuit. Anti-monopoly policies, too, go back at least to the end of the nineteenth century:\(^4\) wasn’t it the monopoly power of firms that such policies were designed to counteract? There must therefore have been some historical research focusing on this theme in the great amount of literature dealing with these policies. What emerged, instead, was a gap in the historiography. I was puzzled as to why there were no studies about the history of a category that certainly did not appear out of the blue with Bain in 1956, and I decided it was worthwhile starting to

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\(^1\) Market power and monopoly power are regarded as synonyms (see Krattenmaker, Lande, Salop 1987). As claimed by Elzinga and Mills (2011, p. 560), the ‘provenance of these two terms is obscure’. We consider them synonymous throughout the book, except for Chapters 4 and 5.

\(^2\) Dupuit (1854a, p. 340) describes the difficulties of entering the transport network market.

\(^3\) For a theory of monopoly before the time of Adam Smith (1723–1790), see De Roover (1951).

\(^4\) It is well known that the first antitrust legislation was introduced in Canada in 1889, followed by the Sherman Act in the USA in 1890.
write one.\textsuperscript{5} Dealing with the question of monopoly power made it unavoidable to deal also with competition, which is widely studied in the secondary literature. The first aim of this book is therefore to attempt to reconstruct from a historical perspective the theory of market power and the relationship it has with the theory of competition.\textsuperscript{6}

The reason for the choice of four Italian marginalists (Pareto, Pantaleoni, De Viti de Marco and Barone) will be thoroughly explained in the first chapter, while their links and influences will be highlighted in the other chapters. I will argue that these economists should be considered by historiography as a close-knit group constituting Italian marginalism. That is the second aim of this book. I should first clarify why I call these Italian economists ‘marginalist’ and not ‘neoclassical’. In fact, all four belong to the era of the construction of the neoclassical paradigm, being part of the generation following that of the first marginalists.\textsuperscript{7} Nevertheless, calling them simply neoclassical would be even less effective for placing them in their period with any degree of precision, because the term neoclassical is still used today to classify microeconomists. It would perhaps be more exact to call them founders of the neoclassical paradigm, or early neoclassical economists. But I will call them marginalists, since the word marginalism was coined in order ‘to cover the acceptance by economists of both marginal utility and marginal productivity’,\textsuperscript{8} and, as we know, the latter concept was incorporated into economic theory not by the first generation of marginalists, but by the one we are studying here.\textsuperscript{9} In this decision on terminology I also have the

\textsuperscript{5} During the research, one of the causes of market power, namely economies of scale when they lead to natural monopoly, required separate study due to its complexity and its implications. This issue was therefore the subject of an independent study (Mosca 2008).

\textsuperscript{6} I started dealing with the relation between competition and market power in a work on the Italian late classical liberal economist A. Marescotti (Mosca 2005b).

\textsuperscript{7} Barucci (1972, p. 512) sets 1890 as the date marginalism completed its first inroads into Italy; Screpanti and Zamagni (2005, Ch. 6) gave the title ‘The Construction of Neoclassical Orthodoxy’ to the chapter on the period from the end of the 1800s to the early 1920s.

\textsuperscript{8} Howey (1973, p. 15); according to him, the word was coined by Hobson in his \textit{Work and Wealth} (1914).

\textsuperscript{9} In the coming chapters, we will mention the role played by one of our four economists (Barone) in founding the theory of marginal productivity.
Introduction

support of those who feel the term neoclassical is not at all appropriate to
describe the marginalist theory.10

Deciding the angle to adopt for a research study on the history of
thought is always complex; I followed the criterion of placing importance
on what was relevant for the economists examined. I started from a sound
basis of history of analysis; that is, from their ‘pure economics’:11 the
third aim of this book is precisely to expand the existing awareness of
how extraordinarily rich and innovative their theoretical contribution was.
However, I will not limit my analysis to the reconstruction and interpr-
etation of abstract theories; but will also treat the ideal and political value
conveyed by these theories as an integral part of the study, along with the
hoped-for effects they were intended to achieve. As we shall see, in the
specific case of the four economists at the centre of this research, these
external aspects were not only present, but also pervasive and often
dominant. The fourth aim of this work is therefore to make an in-depth
reconstruction of the historical and political context in which their
theories were generated, also focusing on the way they have been
applied. This corresponds to my belief that reconstructing exclusively
internal history could give the impression that these four economists
wrote only for the sake of the advancement of economic analysis: a
purely rational reconstruction12 in fact conceals the motives behind the
formulation of the theory, although its normative implications may give
some pointers. It is only a well-contextualised approach that enables us to
know the aims those theories sought to achieve, and that also provides a
key to understanding theoretical passages that are difficult to interpret.13

I wrote this book with the impossible desire to be judged by the
authors I’ve dealt with, and with the illusion of hearing them say I’ve

10 In Aspromourgos’ words, ‘it would be best if the term were now entirely
expunged from the language’ (1986, p. 269). He also cites Schumpeter’s criticism
of the term neoclassical (p. 266). See also Colander (2000).

11 This is how they defined the new economic theory, and it is also the title
of a book by Pantaleoni (1889), who in the Preface writes: ‘This manual is
intended as a succinct statement of the fundamental definitions, theorems and
classifications that constitute economic science, properly so called, or Pure
Economics. Thus, all questions pertaining to economic art, or Political Economy,
are beyond its scope’ (1898, p. vii).

12 We refer here to Blaug’s distinction between rational reconstruction and
historical reconstruction, on which see Maas (2013), among others.

13 Think for instance of ‘The Ministry of Production in the Collectivist State’
by Barone (1908b), which could be interpreted as being in favour of socialism, if
it were not for its author’s well-known political position. See Bradley and Mosca
(2014).
given a faithful reconstruction of their thought. This book is for historians of economic thought, of economic analysis and of economic policy, for industrial economists, microeconomists, economic historians, and historians in general.

PLAN OF THE BOOK

Chapter 1 sets the research field and explains the motivations. Chapter 2 deals with the theory of competition in the work of the four identified Italian marginalists. Chapter 3 is devoted to their ideas on monopoly power. Chapter 4 examines the application of these theories and ideas to various aspects of reality. Chapter 5 analyses their vision of the state and of economic policies. The last chapter then offers some concluding thoughts on the results that have emerged from our enquiry.